

If SAFETEA-LU increased the minimum guaranteed rate of return to 92% (from 90.5%), why was Michigan's rate of return only 89% in 2005?

When speaking of the 92% “guaranteed” rate of return, what is being spoken of is the statutory rate of return percentage found in 23 U.S.C. 105. This section of law also describes how the rate of return calculation should be done. In doing so, it lists the specific federal-aid highway programs that are to be included in the calculation. The list of programs subject to the statutory rate of return calculation represents only a subset of the total amount of federal-aid highway program dollars that are distributed to states. Federal law requires that all states are to get a minimum guaranteed rate of return of 92% on these funds.

The 89% rate of return is what we end up with when all federal-aid highway funds that are distributed to states are included in the rate of return calculation. There are no statutory calculations that govern the distribution of all federal-aid highway program funds and likewise, there is no minimum guaranteed rate of return that applies to all program funds.

In FY 2005, our rate of return on funds subject to the minimum guarantee found in 23 U.S.C. 105 was 90.5% (it was subsequently increased in FY 07 to 92%, where it will remain throughout the duration of SAFETEA-LU). Our rate of return on program funding that was not included in the statutory calculation was only 33%. When you combine the two and look at all program funds that were distributed to states, our rate of return was 88.7%.

Focus tends to be on the statutory rate of return, because it is a visible target. Assuming that the share of program dollars that are used in the calculation of the statutory minimum guarantee calculation remain constant over time (which they have over the course of both TEA-21 and SAFETEA-LU), an increase in the statutory minimum guaranteed rate of return will always translate into an increase in the overall rate of return, assuming all else remains constant.